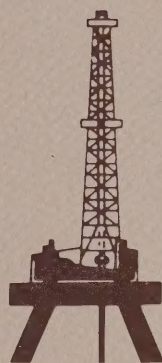
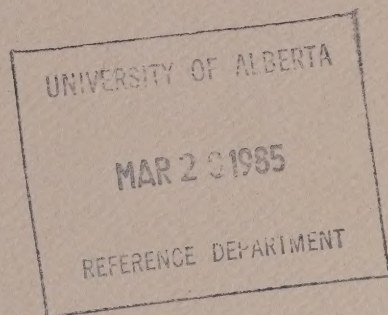


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# JENNIFER PETROLEUMS LTD.

1984 annual report



# president's report to shareholders

On behalf of the Board of Directors of Jennifer Petroleums Ltd., I take pleasure in presenting our annual report for the year ended October 31, 1984. The twelve month period was a record year for Jennifer Petroleums as both revenue and cash flow increased dramatically. Cash flow for the year increased from nil to \$1,952,781 and Gross Revenue for the twelve months increased from \$94,203 to \$7,710,436.

The new Federal Government has indicated it will increase the price of old oil to world oil prices. The

timing is expected to be early spring and will have a dramatic impact on revenue. At the present time about 55% of our oil production is classified as old oil.

The following table highlights the change in the Companies financial picture for the twelve months.

Thank you for your continued support.

*George Hill*

George Hill, President

## HIGHLIGHTS

Production, fourth quarter

Oil and Natural Gas Liquids .....	389 BOPD	— BOPD
Natural Gas .....	2.7 MMCFD	.3 MMCFD
Revenue .....	\$ 7,710,436	\$ 95,203
Cash Flow .....	\$ 1,952,781	\$ —
Per share (basic) .....	\$ .60	\$ —
(fully diluted) .....	\$ .24	\$ —
Earnings (loss) .....	\$ 848,795	\$ (17,590)
Per share (basic) .....	\$ .25	\$ —
(fully diluted) .....	\$ .11	\$ —

Canadian Reserves (as at January 1, 1985)

Oil and Natural Gas Liquids	
Gross .....	1,397,029
Net .....	890,555

Natural Gas

Gross .....	11.8
Net .....	7.6

Sulphur

Gross .....	7,800 Long Tons
Net .....	6,500 Long Tons

United States Reserves (as of March 2, 1981)

Natural Gas	
Gross .....	4.4 BCF
	15%                      20%
Present worth of future cash flows from reserves before income tax .	\$13,357,683      \$10,427,526
Number of shares outstanding .....	3,260,000

(A further 5,216,000 are reserved for conversion of the floating debentures)

Stock Symbol (Alberta Stock Exchange)

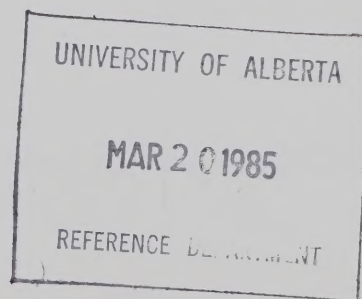
Class A — common .....	JPL.A
Class B — common .....	JPL.B
Convertible Debentures .....	JPL.X

BOPD — Barrels of Oil per day

MMCFD — Millions of cubic feet per day

BBLs — Barrels

BCF — Billion Cubic Feet



*consolidated balance sheet*

As at October 31, 1984

## ASSETS

	1984	1983
CURRENT ASSETS		
Cash .....	\$ 531,774	\$ 50,063
Accounts receivable .....	353,231	7,410
Alberta Royalty Tax Credit receivable .....	340,083	—
	<u>1,225,088</u>	<u>57,473</u>
PROPERTY AND EQUIPMENT, at cost (note 3) .....	10,084,805	1,616,723
Accumulated depletion and depreciation .....	901,895	29,345
	<u>9,182,910</u>	<u>1,587,378</u>
	<u>\$10,407,998</u>	<u>\$1,644,851</u>

## LIABILITIES


CURRENT LIABILITIES		
Accounts payable and accrued liabilities .....	\$ 175,061	\$ 27,196
Corporate taxes payable .....	2,891	13,659
Current maturities on long-term debt .....	1,039,992	—
	<u>1,217,944</u>	<u>40,855</u>
LONG-TERM DEBT (note 4) .....	4,387,947	—
PREPAYMENTS AND ADVANCES UNDER GAS SALES		
CONTRACTS .....	1,654,149	20,670
DEFERRED INCOME TAXES .....	226,000	—

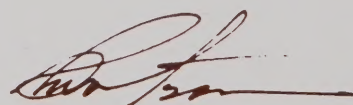
## SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 5)		
10% Convertible preferred shares, Series A .....	476,000	—
Class A subordinate voting shares .....	834,388	—
Class B common shares .....	809,387	—
Common shares .....	—	1,618,775
	<u>2,119,775</u>	<u>1,618,775</u>
RETAINED EARNINGS (DEFICIT) .....	802,183	(35,449)
	<u>2,921,958</u>	<u>1,583,326</u>
	<u>\$10,407,998</u>	<u>\$1,644,851</u>

CONTINGENT LIABILITIES (notes 2, 6 and 10)  
 SUBSEQUENT EVENTS (note 5(f) )

Approved by the Board

 , Director

 , Director

# *consolidated statement of earnings*

Year Ended October 31, 1984

	1984	1983
Revenue		
Oil and gas sales including Alberta Royalty Tax		
Credit, net of crown royalties (note 6) .....	\$6,412,417	\$94,203
Overriding and other royalties (note 6) .....	2,933,109	17,114
Petroleum and Gas Revenue Tax .....	101,625	—
	<u>3,034,734</u>	<u>17,114</u>
Net oil and gas sales .....	3,377,683	77,089
Interest and other .....	43,099	1,315
	<u>3,420,782</u>	<u>78,404</u>
Expenses		
Production .....	411,644	29,685
General and administrative .....	87,095	34,393
Management fees .....	30,000	—
Legal and accounting fees .....	90,264	16,353
Interest on long-term debt .....	717,904	—
Other interest .....	104,582	—
Non-productive mining property .....	5,436	8,125
Depletion and depreciation .....	872,550	7,438
	<u>2,319,475</u>	<u>95,994</u>
Earnings (loss) before income taxes and extraordinary item .....	<u>1,101,307</u>	<u>(17,590)</u>
Income taxes (note 7)		
Current .....	258,942	—
Deferred .....	226,000	—
	<u>484,942</u>	<u>—</u>
Earnings (loss) before extraordinary item .....	616,365	(17,590)
Extraordinary item		
Recovery of current income taxes on application of tax losses carried forward .....	<u>232,430</u>	<u>—</u>
NET EARNINGS (LOSS) .....	<u>\$ 848,795</u>	<u>\$(17,590)</u>
EARNINGS PER SHARE (note 8)		
Basic		
Earnings (loss) before extraordinary item .....	<u>\$0.18</u>	<u>\$(0.01)</u>
Net earnings (loss) .....	<u>\$0.25</u>	<u>\$(0.01)</u>
Fully diluted		
Earnings before extraordinary item .....	<u>\$0.08</u>	<u>—</u>
Net earnings .....	<u>\$0.11</u>	<u>—</u>

## *consolidated statement of changes in financial position*

Year Ended October 31, 1984

	1984	1983
WORKING CAPITAL DERIVED FROM		
Operations before extraordinary item .....	\$1,720,351	\$ —
Recovery of current income taxes on application of tax losses carried forward .....	232,430	—
	1,952,781	—
Issue of convertible redeemable debentures .....	1,304,000	—
Issue of convertible preferred shares, Series A .....	476,000	—
Issue of Class A subordinate voting shares on conversion of debentures .....	25,000	—
Prepayments and advances under gas sales contracts .....	191,620	20,670
Long-term accounts receivable .....	—	31,041
	<u>3,949,401</u>	<u>51,711</u>
WORKING CAPITAL APPLIED TO		
Acquisition of subsidiary company .....	2,944,636	—
Working capital deficiency assumed .....	75,524	—
	3,020,160	—
Operations .....	—	2,027
Additions to property and equipment .....	430,065	75,165
Repayment of long-term debt .....	472,487	—
Reduction of debentures on conversion into Class A subordinate voting shares .....	25,000	—
Dividends on preferred shares .....	11,163	—
	<u>3,958,875</u>	<u>77,192</u>
DECREASE IN WORKING CAPITAL .....	(9,474)	(25,481)
WORKING CAPITAL AT BEGINNING OF YEAR .....	16,618	42,099
WORKING CAPITAL AT END OF YEAR		
(note 2) .....	<u>\$ 7,144</u>	<u>\$16,618</u>

## *consolidated statement of retained earnings (deficit)*

Year Ended October 31, 1984

	1984	1983
DEFICIT AT BEGINNING OF YEAR .....	\$ (35,449)	\$(17,859)
Net earnings (loss) .....	848,795	(17,590)
	813,346	(35,449)
Dividends on preferred shares .....	(11,163)	—
RETAINED EARNINGS (DEFICIT) AT END OF YEAR .....	<u>\$802,183</u>	<u>\$(35,449)</u>

# notes to consolidated financial statements

Year Ended October 31, 1984

## 1. ACCOUNTING POLICIES

### (a) Consolidation

The consolidated financial statements include the accounts of Jennifer Petroleums Ltd. and its subsidiary companies, all of which are wholly-owned.

Acquisitions of subsidiary companies are accounted for by the purchase method, and accordingly, only earnings or losses from the date of acquisition are included in the consolidated statement of earnings. Substantially all the excess consideration paid for the shares of subsidiary companies over the book value of their net assets at date of acquisition is included in property and equipment in the consolidated balance sheet and is amortized on the same basis as such assets.

### (b) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing property, costs of drilling both productive and non-productive wells, and related overhead costs. Such costs, net of proceeds on minor disposals of property, are accumulated and depleted on a country by country basis using the unit of production method based on estimated proven petroleum and natural gas reserves as determined by independent consulting engineers.

Depreciation of petroleum and natural gas production equipment and related facilities is provided using the unit of production method based on estimated proven reserves.

Substantially all of the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

### (c) Foreign Currency Translation

The Company follows the temporal method when translating foreign currency transactions and the financial statements of its foreign subsidiaries. Under this method monetary items are translated at the rates of exchange prevailing at the balance sheet date, non-monetary items are translated at historic exchange rates and revenue and expenses (other than depletion and depreciation which are translated at historic rates) are translated at average rates of exchange during the year. The resulting gains or losses are reflected in earnings except for those relating to monetary items having a fixed life which are deferred and amortized over the life of the particular item. Previously, the Company followed the current, non-current method when translating foreign currency transactions and the financial statements of its foreign subsidiaries. The effect of this change in accounting is not significant.

## 2. ACQUISITION OF 212634 OIL & GAS LTD.

Effective November 1983, the Company acquired all the issued and outstanding shares of 212634 Oil & Gas Ltd., a private corporation with assets in Western Canada. The net assets acquired and values assigned thereto are as follows:

	Net Book Value	Adjustment to Fair Value	Cash Consideration
Petroleum and natural gas properties .....	\$6,084,615	\$1,958,838	\$8,043,453
Working capital deficiency .....	(75,524)	—	(75,524)
Long-term debt .....	(3,581,434)	—	(3,581,434)
Prepayments and advances under gas sales contracts .....	(1,441,859)	—	(1,441,859)
Deferred income taxes .....	(1,579,000)	1,579,000	—
	<u>(6,677,817)</u>	<u>1,579,000</u>	<u>(5,098,817)</u>
Net assets acquired .....	<u>\$ (593,202)</u>	<u>\$3,537,838</u>	<u>\$2,944,636</u>

Under the terms of the purchase of 212634 Oil & Gas, the Company agreed to pay to the vendor further amounts contingent upon the realization of such amounts by 212634 Oil & Gas on account of the Alberta Royalty Tax Credit receivable by 212634 Oil & Gas. The contingent consideration and the offsetting potential receivable are not reflected in the above summary of net assets acquired.

In December 1983, a civil action was commenced by federal and provincial taxing authorities against 212634 Oil & Gas alleging conspiracy during 1979, 1980 and 1981 to receive from the province of Alberta, royalty tax credit amounts in excess of the maximum amounts permitted for any corporation or group of associated corporations. Damages have been claimed against 212634 Oil & Gas individually in the amount of \$898,485 and against 212634 Oil & Gas and others in the amount of \$250,000. Statements of Defense have been prepared. The potential receivable offsetting the contingent consideration referred to above has been withheld by the province of Alberta pending the resolution of the claim and accordingly an additional liability should not result.

In December 1983, Revenue Canada, Taxation disallowed certain costs claimed as deductions from taxable income by 212634 Oil & Gas. Notices of Objection to the reassessments have been filed. An approximate \$380,000 increase in corporate taxes payable

would arise if Revenue Canada, Taxation were to be successful in disallowing the claims. Neither this contingent liability nor the accrued interest thereon have been reflected in the financial statements or in the above summary of the net assets of 212634 Oil & Gas acquired by the Company. Cash as at October 31, 1984 includes \$310,000 pledged as security with Revenue Canada, Taxation in connection with this contingent liability.

Reference is made to note 6.

### 3. PROPERTY AND EQUIPMENT

	October 31, 1984			October 31, 1983
	Cost	Accumulated Depletion and Depreciation	Net	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon				
Canada .....	\$ 8,439,667	\$848,000	\$7,591,667	\$ —
United States .....	1,642,310	52,895	1,589,415	1,585,521
Other property and equipment .....	2,828	1,000	1,828	1,857
	<u>\$10,084,805</u>	<u>\$901,895</u>	<u>\$9,182,910</u>	<u>\$1,587,378</u>

### 4. LONG-TERM DEBT

	1984
Reducing demand production bank loan .....	\$4,148,939
Convertible redeemable subordinated debentures .....	1,279,000
	<u>5,427,939</u>
Less current maturities included in current liabilities .....	1,039,992
	<u>\$4,387,947</u>

The reducing demand production bank loan bears interest at the applicable Canadian bank's prime rate plus 1¼% and is repayable out of future production proceeds over five years. Minimum monthly payments on the loan are \$86,666 plus interest. The loan is secured by specific petroleum and natural gas properties, accounts receivable and demand promissory notes.

The convertible redeemable subordinated debentures were issued in November 1983 under a rights offering by the Company to its Class B common shareholders. The debentures bear interest at a floating rate equal to a Canadian bank's prime rate and mature December 31, 1988. The debentures are convertible into Class A subordinate voting shares on or before December 31, 1988 at a price of \$0.25 per Class A share. Under specified terms and conditions the debentures may be redeemed by the Company, at any time after December 31, 1985, by payment of the principal amount of such debentures plus interest accrued to the redemption date.

### 5. CAPITAL STOCK

#### (a) Authorized

At October 31, 1983 the authorized share capital of the Company consisted of 10,000,000 common shares without par value.

In November 1983 the authorized share capital was changed to 20,000,000 common shares designated Class A subordinate voting shares without nominal or par value (each holder of a Class A subordinate voting share being entitled to one vote for each such share held) and 20,000,000 common shares designated Class B common shares without nominal or par value (each holder of a Class B common share being entitled to 25 votes for each such share held). In the event that an offer to purchase Class B common shares is made to all holders of Class B common shares and accepted by more than 50% of such shareholders and an offer to purchase Class A subordinate voting shares on the same terms and conditions is not made, each holder of a Class B share shall, from the date when such shares are taken up pursuant to the terms of the offer, only be entitled to one vote for each such share held.

In November 1983 every two of the previously issued and outstanding 3,260,000 common shares were converted into one Class A subordinate voting share and one Class B common share.

In July 1984 the Company further changed its authorized share capital to include 1,000,000 preferred shares with a redemption value of \$10.00 each, issuable in series.

#### (b) Issued

Changes in the issued capital stock for the two years ended October 31, 1984 are as follows:

	10% Convertible Preferred Shares, Series A		Common Shares	
	Number of Shares	Carrying Value	Number of Shares	Carrying Value
Balance October 31, 1982 and October 31, 1983 .....			3,260,000	\$1,618,775
Cancelled on conversion of common shares into Class A subordinate voting shares and Class B common shares .....			(3,260,000)	(1,618,775)
Issued for \$500,000 cash pursuant to private placement, less expenses of issue, net of income tax reduction of \$13,500 .....	50,000	\$476,000	—	—
Balance October 31, 1984 .....	<u>50,000</u>	<u>\$476,000</u>	<u>—</u>	<u>\$ —</u>

	Class A Subordinate Voting Shares		Class B Common Shares	
	Number of Shares	Carrying Value	Number of Shares	Carrying Value
Issued on conversion of common shares into Class A subordinate voting shares and Class B common shares .....	1,630,003	\$809,388	1,630,003	\$809,387
Issued on conversion of redeemable debentures .....	100,000	25,000	—	—
Balance October 31, 1984 .....	<u>1,730,003</u>	<u>\$834,388</u>	<u>1,630,003</u>	<u>\$809,387</u>

(c) 10% Convertible Preferred Shares, Series A

The convertible preferred shares, Series A were issued at \$10.00 and bear cumulative dividends of 10% per annum. Each preferred share is convertible into Class A subordinate voting shares at a rate of \$0.65 per Class A share on or before June 30, 1987. Under specified terms and conditions the preferred shares may be redeemed by the Company on or after June 30, 1985 and before June 30, 1987. If not redeemed earlier, the preferred shares shall be redeemed by the Company on June 30, 1987 at \$10.00 per share.

Two Series A share purchase warrants were issued with each 10% convertible preferred share.

(d) Series A Share Purchase Warrants

As at October 31, 1984, there are 100,000 Series A share purchase warrants outstanding, which entitle the holders to purchase for each warrant held one Class A subordinate voting share at \$0.75 on or before June 30, 1985 and at \$0.85 on or before June 30, 1986.

(e) Shares Reserved

(i) Class A Subordinate voting shares

As at October 31, 1984 Class A subordinate voting shares of the Company were reserved as follows:

5,116,000	for issuance on the conversion of redeemable debentures (note 4)
769,235	for issuance on the conversion of outstanding 10% convertible preferred shares
100,000	for issuance on the exercise of outstanding Series A share purchase warrants
<u>5,985,235</u>	

(ii) Class B Common shares

As at October 31, 1984, 325,000 Class B common shares were reserved for issuance on the exercise of outstanding share options granted to directors and officers at an exercise price of \$0.15, expiring September 19, 1986.

(f) Subsequent Events

Subsequent to October 31, 1984, 300,000 of the outstanding share options were exercised and the Company granted to an officer and director additional options to purchase 335,000 Class B common shares at an exercise price of \$0.35, expiring November 27, 1987.

(g) Dividend Restriction

The payment of dividends on common shares and the redemption of preferred shares is subject to approval by the holders of certain of the Company's long-term debt.

## 6. OVERRIDING ROYALTY AND ALBERTA ROYALTY TAX CREDIT

Included in 1984 oil and gas sales is the Alberta Royalty Tax Credit of \$1,510,195.

Sales revenue from the Company's Canadian petroleum and natural gas properties is subject to an overriding royalty of approximately 62.5%. The royalty will cease when \$49,050,000 has been paid. As at October 31, 1984, approximately \$10,631,000 has been paid or accrued.

The Company and the holder of the overriding royalty disagree on the manner by which the Petroleum and Gas Revenue Tax should be calculated with respect to the determination of the overriding royalty. Resolution of the matter in favour of the royalty holder would result in a payment of approximately \$472,000 by the Company and a corresponding increase in the amounts paid or accrued against the maximum royalty payable. This contingent liability has not been reflected in the financial statements nor in the summary of the net assets of 212634 Oil & Gas acquired by the Company included in note 2.

## 7. INCOME TAXES

The effective income tax rate for the year ended October 31, 1984 varies from the rate that would be computed by applying the statutory rates as follows:

	1984	
	Amount	% of Pre-Tax Earnings
Computed income tax expense.....	\$ 527,526	47.9
Increase (decrease) in income taxes resulting from:		
Non-deductible provincial royalties and rentals net of provincial rebates .....	1,216,518	110.5
Alberta Royalty Tax Credit .....	(723,383)	(65.7)
Non-deductible amortization of excess consideration paid for shares of subsidiary companies .....	184,415	16.7
Petroleum and Gas Revenue Tax .....	48,678	4.4
Federal resource allowance .....	(777,824)	(70.6)
Other .....	9,012	0.8
Income tax expense .....	<u>\$ 484,942</u>	<u>44.0</u>

## 8. EARNINGS PER SHARE

Earnings per share is calculated using the weighted average of the aggregate number of Class A subordinate voting shares and Class B common shares outstanding during the year since both classes of common shares participate equally in residual earnings. All per share amounts give retroactive effect to the conversion in November 1983 of common shares into Class A and Class B shares.

The weighted average number of common shares used in calculating earnings per share is as follows:

	1984	1983
Basic		
Weighted average number of:		
Class A subordinate voting shares .....	1,647,503	1,630,003
Class B Common shares .....	1,630,003	1,630,003
	<u>3,277,506</u>	<u>3,260,006</u>
Fully diluted		1984
Weighted average number of:		
Class A subordinate voting shares .....		1,647,503
Class B common shares .....		1,630,003
Class A subordinate voting shares pertaining to:		
Conversion of preferred shares .....		224,360
Conversion of debentures .....		4,689,667
Exercise of warrants .....		29,167
Class B common shares pertaining to:		
Exercise of options .....		325,000
		<u>8,545,700</u>

Basic earnings per share for the year ended October 31, 1984 has been calculated after reducing net earnings by \$15,330 being the provision for preferred share dividends to October 31, 1984.

In determining 1984 fully diluted earnings per share, net earnings has been increased by \$83,811 being the after-tax effect of interest on the convertible debentures and \$5,650 to reflect an imputed after-tax return of 6% on funds which would have been available on the exercise of options and warrants.

1983 fully diluted earnings per share has not been disclosed since the potential effects of the exercise of options would reduce the calculated loss per share.

## 9. BUSINESS SEGMENTS

The Company is engaged in one industry, oil and gas exploration, development and production primarily in Canada.

Prior to the acquisition of 212634 Oil & Gas Ltd. the Company's operations were all located in the United States.

## 10. CONTINGENT LIABILITY

A potential claim against the Company exists respecting its title to interests in certain of its producing petroleum and natural gas properties. In the opinion of management any liability that may arise from such contingency would not have a material adverse effect on the consolidated financial statements of the Company.

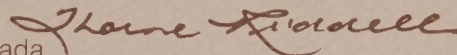
## *auditors' report*

To the Shareholders of Jennifer Petroleums Ltd.

We have examined the consolidated balance sheet of Jennifer Petroleums Ltd. as at October 31, 1984 and the consolidated statements of earnings, retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada  
January 11, 1985



Chartered Accountants

